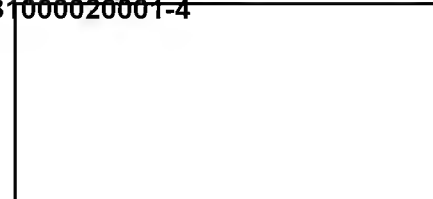




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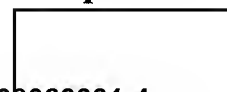


National Intelligence Daily (Cable)

9 January 1979

State Dept. review completed

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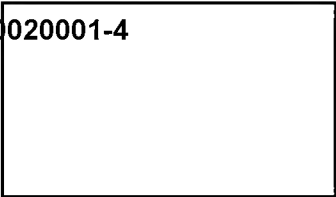
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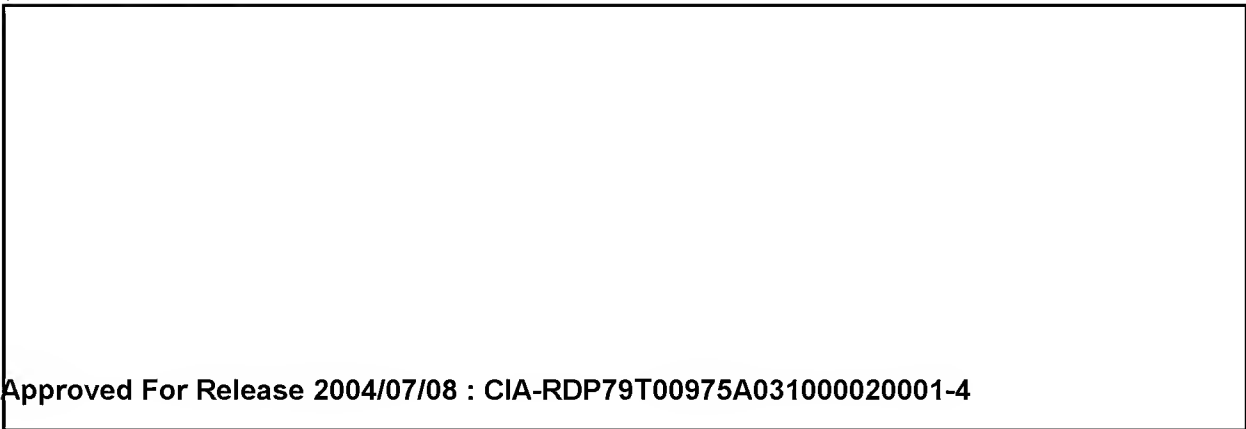


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SITUATION REPORT

Iran

[redacted] the US Embassy in Tehran reported yesterday that retired General Jam has refused to become Minister of War in Prime Minister Bakhtiar's government and intends to return to London as soon as possible. After a meeting with the Shah, Jam reportedly concluded that the Bakhtiar government is a hopeless proposition. Debate on the new cabinet in the lower house of the legislature has been delayed until Thursday; the Senate will consider it on Friday. Meanwhile, pressure on military and police forces continues to mount as violent demonstrations occurred yesterday in Tehran, Tabriz, and other cities.// [redacted]

Jam's departure will severely weaken and embarrass the Bakhtiar government. Jam was the one prominent figure in a cabinet consisting mostly of political unknowns. We believe Jam's departure will also erode Bakhtiar's ability to deal with hardline military officers who are pressing for a harsh crackdown on the opposition. The chances that these officers will attempt to seize power have probably been increased. [redacted]

The Shah's apparent unwillingness to give Jam the power to control the military raises the possibility that the Shah does not really want the Bakhtiar government to succeed. The Shah--or at least his hardline advisers like Ambassador Zahedi--may in fact hope that if Bakhtiar fails to restore order the stage will be set for a military crackdown. [redacted]

Demonstrations continued yesterday in Tehran, Mashhad, Esfahan, Abadan, and other cities. In Tabriz rioters burned eight theaters and up to 100 stores. An estimated crowd of 10,000 listened to speeches in Shiraz by political and religious opposition leaders. [redacted]

[redacted]

[redacted]

[redacted]

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Concern by religious and political opposition leaders that further provocations might lead to a backlash by military units has led them to take a more cautious and conciliatory attitude toward the Army and the police. Two leading religious figures--Ayatollah Taleqani in Tehran and Ayatollah Dastgad in Shiraz--yesterday urged demonstrators not to take the law into their own hands. [REDACTED]

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BRIEFS AND COMMENTS

NICARAGUA: Anniversary Protests

//The Somoza government and its opponents are braced for a confrontation during protest activities this week in commemoration of opposition martyr Chamorro, whose murder last January touched off events that led to the civil warfare in September. The most likely flashpoints will be a youth rally this afternoon and a massive march to Chamorro's gravesite tomorrow. The National Guard has warned that the march will not be allowed unless the organizers obtain a permit, which they seem disinclined to do. Other protests probably will include a general strike of one day or more and demonstrations, including a possible march on the US Embassy, by Managua slum organizations.

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NIGERIA: Political Trouble in Kano

Nigerian police officials are increasingly concerned over the serious conflict developing in northern Kano State, according to the US Embassy. The trouble has included several clashes between two Muslim-based political parties and has led to a number of arrests. Major political violence is most likely to occur here as electioneering intensifies and the country draws closer to a scheduled changeover to civilian rule next October. Similar situations are likely to crop up elsewhere in Nigeria, testing the government's ability to keep order and its resolve to proceed toward civilian government.

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SPAIN: King's Speech to Military

King Juan Carlos, in a speech to the military on Saturday, appealed for discipline and solidarity in the face of terrorism. In unusually explicit language, he denounced the lack of discipline displayed by some officers after the funeral mass late last week for the slain military governor of Madrid. Although the speech has eased tensions within the military, more occasional outbursts are likely, and discipline problems could grow if Basque terrorists kill more high-ranking officers.

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The King also praised Defense Minister General Gutierrez Mellado, who has become highly unpopular among the military for his role in bringing needed reforms to the armed forces.

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Spanish media have termed the speech necessary and appropriate, and the King's intervention has probably given pause to many in the military who are unhappy with the government. Despite the continuing danger terrorism poses to military discipline, most key command positions are held by moderate officers who remain loyal to the King and are fully aware of the problem.

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PERU: General Strike Threat

Several leftist labor groups, including the influential General Workers' Confederation, plan to start a three-day general strike today. More moderate unions are not participating, at least for now, which could limit the strike's effectiveness or force it to be postponed. Any widespread work stoppages would pose major economic and political problems for the military government.

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The left is trying to capitalize on the workers' growing frustration over the worsening effect of inflation. Last week's official price hikes on gasoline, rice, and bus fares seem to have provided the final incentive for calling a strike, which labor leaders have warned could be extended indefinitely unless their demands are met. Previous general strikes have all but closed the city of Lima.

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The government is taking a tough line to prevent or hamper the strike, but stern measures could affect the military's timing in implementing its promise to return power to civilian hands by 1980, a delicate process that has been under way for some months. Leaders of Peru's major political party, which backs the moderate labor group, see a chance to come to power when the officers return to the barracks. Party leaders may fear loss of popular support, however, if they do not soon stand up to the government on bread-and-butter issues.

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Prolonged or widespread work stoppages could worsen the already precarious economic situation by disrupting copper production--a key earner of foreign exchange. The strike could also damage Peru's shaky international financial standing by forcing the government to back away from its agreements with the International Monetary Fund.

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SPECIAL ANALYSIS

IRAN AND THE WORLD OIL MARKET

Despite continuing turmoil in Iran, the world oil market picture has changed little since November. Production by other producers is up, and stocks are sufficient to meet world demand through the winter. If Iran does not resume exports by spring, however, the market will tighten, and stockpilers will occupy the key position.

The most important development has been a substantial production increase in other OPEC countries. Most member states would have increased their oil exports in the fourth quarter of 1978 in any case because of high seasonal demand and speculative purchases in anticipation of the oil price hike on 1 January. The reduction in Iranian supplies has further stimulated demand for crude from other OPEC countries.

Iraq, Kuwait, Nigeria, and other OPEC members have increased production by another 500,000 barrels per day and are also producing at near capacity levels. Non-OPEC production increased by only about 100,000 to 200,000 barrels per day, slightly less than we had expected.

Iranian Production

Iran now is producing less than 300,000 barrels of oil daily, compared with a normal production of 5.5 million to 6 million barrels. It has exported no oil since 27 December.

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If Iranian exports are completely shut down through the winter, the oil market will tighten even with other suppliers producing at capacity. The gap between supply and demand will be about 2 million to 3 million barrels per day. Competition for available supplies will intensify, spot shortages of some oil products will occur, and spot market prices will rise. [REDACTED]

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Current world inventories--equal to 70 days' consumption--would nevertheless remain adequate to meet overall demand. If production shortfalls continue after the winter, oil companies will have a difficult time rebuilding inventories sufficient for next winter. [REDACTED]

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A key question is whether holders of stocks would release them to cover production shortfalls. If stockholders hang on to their inventories, as happened after the 1973 embargo, consumption cutbacks will be necessary. Thus far, middlemen and consumers have accepted the curtailment of Iranian exports calmly, but their mood could change quickly if a prolonged supply disruption appeared likely. [REDACTED]

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//Some oil-producing countries might try to push up their prices unilaterally if there is a prolonged Iranian shutdown and subsequent market tightness. Moreover, should spot market prices rise, these countries would be especially sensitive to any indication of profiteering by middlemen. If the OPEC countries became convinced that oil companies and brokers were making excessive profits by reselling oil, even if the volumes were small, the price hawks among them could be counted on to lobby for a further boost in official sales prices beyond those set last month.// [REDACTED]

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